

May 1998

# The Great CD Rip-off

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## Recommended Citation

Gonsalves, Michael (1998) "The Great CD Rip-off," *Ethos*: Vol. 1998 , Article 6.  
Available at: <http://lib.dr.iastate.edu/ethos/vol1998/iss2/6>

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# The Great CD Rip-Off

**Do you pay too much for CDs? The federal government, as well as regular citizens like yourself, suspect the answer is a resounding yes.**

In Ames, a town where you can still get a six-pack of Chicken McNuggets for under a buck, you have to wonder why it costs so much to buy a new CD.

If you've been in a record store lately, you, as a money-conscious music lover (and who isn't?), have to be asking yourself, "Why are CDs so damn expensive?"

Charity Reeves, a senior in sociology and environmental studies, states her concern about CD prices more bluntly.

"I think I'm getting ripped off," she said.

Reeves isn't alone in her suspicion. In fact, since the middle of last year, organizations such as the U.S. Federal Trade Commission (FTC) have been taking steps to find the answer.

## **What Goes Up, Must Come Down...Right?**

When the compact disc was first introduced in the early 1980s, there was an unwritten promise to consumers that when the companies recouped the initial investment into the new format and production costs fell, so would prices.

Unfortunately, almost 15 years later, that great price fall has yet to happen.

In 1983—the year compact discs debuted in the United States—CDs were about \$3 to produce, and the average selling price per disc was \$21.50. In 1996, the production costs fell to as little as 70 to 90 cents, yet new CDs *still* cost as much as \$17.99. In a February 6, 1997 *Rolling Stone* article, it was reported

that the 90 cent production cost breaks down to about 60 cents for the actual CD, 20 cents for the jewel case, and 10 cents for the paper.

One of the main complaints record manufacturers have is that consumers don't understand how much it costs to release an album. Consumers see it costs less than \$1 to produce a disc, and assume all money they pay is just going to fill the pockets of Corporate America. However, added to that 90 cent production cost per disc are royalties, publishing rights, distribution and marketing costs. While the record industry is a \$10 billion a year business and the six major record companies account for approximately 85 percent of the total sales, corporate profits of large entertainment companies have been falling for several years.

According to industry reports, it costs at least \$500,000 to produce and market a CD. There were nearly 30,000 new releases in the U.S. last year, of which less than two percent were able to sell more than 50,000 copies. In fact, according to the same *Rolling Stone* article, almost nine out of 10 CDs lose money.

Charlie Stewart, manager of Peeples Music, 303 Welch Ave., said consumers are not really educated about what retailers pay for CDs. Manufacturers sell CDs to retailers for \$10-13, he said. In turn, those retailers sell the discs to the consumer for \$12-17, profiting as little as \$1-2 per disc.

"Someone is making money," Stewart said, "but it certainly isn't us."

Despite the escalating prices of new CDs, we here in the United States are lucky. In England, CDs by top name groups cost \$20 or more, and throughout the rest of Europe prices can range as high as \$30.

"Ever since I started spending my summers in Europe, I've been quite happy with CD prices in the United States," said Blythe Bowman, a junior in classical studies and anthropology. "I once paid \$27 for a CD in Greece. After that, you get a little more tolerant of the U.S. prices."

If you're feeling really adventurous and are a true music lover, try CD hunting in Canada, where prices for top new releases average only about \$11 in U.S. currency.

For example, take Janet Jackson's recent release, *Velvet Rope*. According to the *Toronto Star*, the same album sold for \$11 in Canada, \$15 in the U.S., and a whopping \$24 in the United Kingdom.

### Big Business Goes Under the Microscope

In 1993, the FTC launched an investigation into claims that the big six record companies (Sony Music Entertainment, Warner, EMI Music Distribution, MCA, Bertelsmann Music Group Inc., and Polygram Group Distribution Inc.) had been working together to artificially keep CD prices high. After three years of investigating, the FTC closed the probe, with no action having taken place against the major record companies.

Near the end of last year, the FTC reopened its case, specifically looking for information as to how the big labels enforce its minimum advertised price (MAP) policies.

Record companies usually pay for advertising done by retailers as long as the price for which they sell their CDs does not go below a certain amount—usually around \$11.80. The government is currently researching record companies' MAP policies to see if any

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**-Charlie Stewart, manager of Peeples music**

violate anti-trust laws. Such policies range from withholding advertising dollars from retailers who break the policy to refusing to do any business with them.

The U.S. government hasn't been the only one to investigate CD prices. Similar investigations have been launched in other countries. In 1994, the British government conducted an investigation into accusations of price fixing, and of record companies amassing large profits from the sale of CDs. While the English found no evidence of wrongdoing on behalf of the majors, the Italian government found, after an investigation ending last year, that the local branches of the majors had conspired to fix prices throughout Italy.

The closing of the FTC case in late 1996 didn't stop others from questioning a record company's policy. Two major lawsuits have been filed representing the interests of CD buyers in 15 different states and the District of Columbia (Iowa isn't one of them at the moment, but could at any time offer its support of the civil action). Both cases allege "The Big Six" have been working to keep prices of CDs artificially high since about 1992.

The larger of the two cases was filed in Tennessee by two local record buyers.

The suit, which has been declared a class-action in 14 states and Washington D.C., (meaning any ruling for the specific petitioners in Tennessee would affect those wishing to claim damages in the other states as well), is suing on behalf of all people who have purchased CDs from “the Big Six” since June 26, 1992. The case claims that the record companies have worked to keep record prices artificially high. It is asking for damages at about \$2 to \$3 per disc for anyone who has purchased a compact disc from any of those companies within that time period.

All that legal mumbo-jumbo sounds promising, doesn't it? However, don't expect the FTC to wrap up its investigation anytime soon, or a decision to come about in any of the

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-Brian Smith, senior in electrical engineering**

various lawsuits, either. The federal government usually takes two to three years to investigate cases like this, and most likely, there won't be a decision in the civil cases until the FTC investigations are over.

### **The Local Scene**

For a city the size of Ames, there is a pretty large selection of shops in which to buy both new and used music. CD prices in Ames, though, fluctuate all over the map. We have the chain-store, Musicland, and there are relatively large music sections in K-Mart, Target and Wal-Mart. Smaller local chains, like Co-Op Records and Peeples Music, as well as two primarily used music shops, Aftermath and Disc-Go-Round, sometimes sell both new and used CDs.

The CD prices at Musicland are usually around \$16.99 for new, non-sale priced discs, while Target, K-Mart and Wal-Mart average around \$12.99, similar to the discs at Peeples Music. At Co-Op Records, prices are usually \$13.97 for new discs. The lower prices at the general retail chains such as Target and K-Mart occur because they don't make their major profits from the sale of music, rather, the low-priced discs draw customers in to buy other items, like clothing, stereo equipment or furniture. The same principle helps mega-chains like Best Buy (there's one in Des Moines) sell new discs at sale prices as low as \$10. Large chains like Best Buy assume the low prices and larger selection will bring customers in to buy high profit items like refrigerators and TVs.

Many music lovers, like Brian Smith, a senior in electrical engineering, have resorted to buying CDs second-hand.

“When I first got into CDs, I always bought new,” Smith said. “Since then, used CD stores have opened up and the price of new CDs seems to have skyrocketed, so now I buy mostly used CDs.”

Ames is a very good town for used music, too. Of the five record stores, and three other places that retail CDs in Ames, two sell used discs almost exclusively, and two others have used CD sections. According to Brian Madsen, an employee at Disc-Go-Round, 526 Main St., the store buys CDs from \$3 to \$5, and sells them for either \$5.99 or \$7.99. Aftermath buys CDs for around the same price (more for store credit) and sells them for about \$6. Both Co-Op Records and Peeples Music have used sections, and usually buy CDs for around \$4, to sell for around \$8. The drawback with the used shops, though, is you may have to wait a while before that new Marcy's Playground CD will show up in their racks. Madsen said it usually takes a few weeks before a new release will show up in the racks—and then usually only in quantities of one or two.

The best deal in Ames is the Public Library, located at 515 Douglas Ave. It has a wide selection of CDs (as well as movies and, of course, books) ranging from classical, jazz, country and new rock albums from the likes of Bjork, Jamiroquai and the Smashing Pumpkins. You can borrow a CD for up to three weeks, and best of all, it's free as long as you have a library card.

### **The Rest Is Up To You**

So until the FTC wraps up its case, Ames and U.S. music buyers are left with few choices. We are forced to pay big bucks for new CDs, spend weeks—maybe longer—scavenging the used shops, or, of course, we can always move to Canada. ■